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SUBJECT: Jordan, Egypt, Syria and Lebanon Sign Phase Two of Arab Gas Pipeline

1. (u) SUMMARY: The Prime Ministers of Jordan, Egypt, Syria and Lebanon witnessed the signing of agreements to begin the second phase of a pipeline to supply natural gas from Egypt to the other three countries. This phase will extend the current Egypt-Jordan pipeline north to the Rihab Power Station in northwest Jordan. Future phases will extend the pipeline to Syria, Lebanon, Cyprus, Turkey and other European countries. Jordan's share will be one fifth of the pipeline's 10 billion cubic meters a year capacity. Jordan and Egypt inaugurated phase one last summer, linking the offshore gas fields in Egypt's Al Arish area to Aqaba. Aqaba's Thermal Power Station is already burning natural gas. The project is designed to supply Jordan with its needs of natural gas for the next thirty years. END SUMMARY.

2. (u) The Prime Ministers of Jordan, Egypt, Syria and Lebanon witnessed the January 25 signing in Amman of a \$270 million agreement to begin installing Phase Two of a \$1 billion pipeline to supply natural gas from Egypt to the other three countries. The Phase Two agreement is for a 393-kilometre pipeline that will run from Aqaba to the Rihab Power Station in northwest Jordan. Jordanian King Abdullah and Prime Minister Faisal al-Fayez told the press on Sunday that the Arab gas pipeline project would bolster Arab "joint action" and economic performance.

THE PATH OF THE PIPELINE

3. (u) The \$1 billion pipeline, also known as the Arab Gas Pipeline, begins at Port Said, in Egypt, and will eventually end in the Syrian port of Banyas. According to the plan, the pipeline will connect from there to the Lebanese natural gas power plant in Zahrani by 2005, and to the Syrian-Lebanese pipeline, called GASYLE I. From Banyas, this will extend to Cyprus and Turkey in 2006. According to the press, the pipeline will take advantage of Egypt's large proven natural gas reserves (1,656 billion cubic meters, according to October 2002 figures.)

THE COMPANIES

4. (u) An Egyptian consortium of Egypt Holding Gas Company, GASCO, Petrojet and Emppi will carry out the second stage through al-Fajr Company, a local Jordanian firm that groups Jordanian, Egyptian and other Arab investors. Al-Fajr will construct and operate the second phase of the pipeline on a build, operate, own and transfer (BOOT) basis. The agreements also sets the criteria for purchasing gas from Egypt and selling it to the power plants in Jordan to generate electricity.

PHASE ONE

5. (u) King Abdullah and Egyptian President Mubarak last July inaugurated Phase One; a 265-kilometre pipeline that starts from the offshore gas fields in Egypt's al-Arish area, traveling to Aqaba underwater from Taba. Jordan's Minister of Energy and Mineral Resources, Azmi Khreisat, told the local press that Phase One of the pipeline currently provides Aqaba Thermal Power Station with natural gas to generate around 650 megawatts of electricity, which is more than 43 per cent of Jordan's current maximum generation capacity of 1,500 megawatts. According to the Ministry of Energy and Natural Resources, the Aqaba Thermal Power Station is going through conversion: currently four out of the five units at the station are running on natural gas and the fifth unit is still under conversion, a process that may take up to three more months to complete.

Comment

16. (sbu) This pipeline is one of several that have been proposed in recent years for transporting Egyptian gas to the Levant and eventually to Turkey and the European natural gas network. A route via the Gaza Strip, Israel then northward, with an offshoot line to Jordan, is impractical for now. Another path would have served Cyprus by a direct marine pipeline from Egypt. Agreement on the Jordan route is good news in terms of diversifying Jordan's energy supply sources. However, although increased supplies of natural gas will help Jordan meet growing electricity generation needs, they will not reduce crude oil imports, which Jordan will continue to need to import at a growing rate in order to meet demand for gasoline and other refined products. Jordan will, however, have to figure out how to dispose of a surplus of fuel oil that was previously used to fire electricity turbines and for which it has not found a viable export market.

HALE